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THE THEORY OF PROGRESSIVE TAXATION.

I.

THE question of progressive taxation is forging to the front. It has not been settled either in theory or in practice. If we look at the history of taxation, we find repeated attempts made to introduce the progressive principle, from the early legislation of Solon down to the present time. And if we confine ourselves to the nineteenth century, we find that almost every country has to some extent introduced the progressive principle into its actual tax system. We find this not only in monarchies, like those of continental Europe, but in democracies, like those of America, Australia and Switzerland. Thus, for instance, we find a progressive income tax in Prussia and many of the other German states, in Sweden, Denmark and many of the towns of Holland and Belgium, as well as in Switzerland; a progressive rental tax in France; a progressive property tax in Switzerland and Australia; a progressive inheritance tax in England, Switzerland, Australia, Canada and elsewhere; and even in the United States, which is supposed to be *par excellence* the home of proportional taxation, we have had a federal progressive property tax and some decidedly progressive income taxes, we still have progressive income taxes and progressive taxes on the receipts of corporations, while the introduction of the progressive principle into the inheritance tax is being earnestly considered. It may be worth while, then, to review the arguments for and against progression in order to ascertain where the real truth lies.

I use the term "progressive taxation" in preference to "graduated taxation," because a gradation may logically be either upwards or downwards; while "progression" always denotes a gradation upwards. A higher rate on a smaller property or income would still be graduated taxation, but it would be regressive, not progressive.

The arguments that have been advanced in favor of progressive taxation may be grouped in three classes, which may be called respectively socialistic, compensatory and economic.¹

The foremost scientific advocate of the socialistic theory of progression is the German economist Adolf Wagner. Wagner distinguishes between the purely fiscal period in the history of public finance and the "socio-political" period. The characteristic of the first period is the simple endeavor of the government to raise a revenue adequate to its needs. The characteristic of the second period lies in the predominance of social reasons over purely fiscal reasons. The state is no longer satisfied merely with raising adequate revenue, but now considers it a duty to interfere with the rights of private property in order to bring about a more equitable distribution of wealth. The fiscal policy looks merely at the needs of the administration; the socio-political policy looks at the relations of social classes to each other, and the best methods of satisfactorily adjusting these relations. The fiscal policy necessarily results in proportional taxation; the socio-political policy results in progressive taxation. The ethical demands of modern civilization are everywhere preparing the way for a transition from the old fiscal period to the incipient socio-political period. It is these ethical or social reasons alone which can logically serve as a basis for progressive taxation.

This distinction of Wagner is, however, entirely baseless. It is not true historically that the tax policy of various nations has been adjusted solely with reference to purely fiscal reasons. All governments have allowed social considerations in the widest sense to influence their revenue policy. The whole system of protective duties has been framed not merely with reference to revenue considerations, but in order to produce results which should directly affect social and national pros-

¹ For a fuller statement of the theories and for a detailed history and criticism of the various writers on the subject, as well as for a sketch of the facts and results involved, the reader is referred to a monograph on "Progressive Taxation" by the present writer, to appear in Volume VIII of the Publications of the American Economic Association.

perity. Taxes on luxuries have often been mere sumptuary laws, designed as much to check consumption as to yield revenue. Excise taxes have often been levied from a wide social, as well as from a narrow fiscal, standpoint. From the very beginning of all tax systems these social reasons have frequently been present. The attempt to distinguish sharply such periods in history is, therefore, unsuccessful.

But, on the other hand, it is not allowable to confound this undoubtedly social element in all fiscal policy with what Wagner calls the socio-political, or what may be called more correctly the socialistic element. From the principle that the state may modify its strict fiscal policy by considerations of general national utility, to the principle that it is the duty of the state to redress all inequalities of fortune among its private citizens, is a long and dangerous step. It would land us not only in socialism, but practically in communism. If the equalizing of fortunes were one of the acknowledged functions of government, it would be useless to construct any science of finance. There would be only one simple principle: confiscate the property of the rich and give it to the poor.

The socialistic argument, which undoubtedly lies at the basis of many of the demands for progressive taxation, must be unconditionally rejected by all who are not prepared to class themselves as socialists. But, unfortunately, most of the middle class, as well as many professed economists, have confounded the economic theory of progressive taxation with the socialistic theory and have assumed that progressive taxation necessarily implies socialism and confiscation.¹ This is entirely erroneous. It is quite possible to repudiate absolutely the socialistic theory of taxation and yet at the same time to advocate progression. One may be an arch-individualist and yet logically believe in progressive taxation.

Before taking up the economic theory, however, it may be well to notice briefly the views of those who occupy a middle

¹ The ablest American exponent of this subject is Mr. David A. Wells. Cf. "The Communism of a Discriminating Income Tax," *North American Review*, March, 1880.

ground, and who uphold progressive taxation on what I may call the compensatory argument. President Walker, for example, bases his defence of progressive taxation on two points: first, "the undoubted fact that differences of property and income are due in no small degree to the failure of the state in its duty of protecting men against violence and fraud"; and secondly, "that differences in wealth are in a measure due to the acts of the state itself for a political purpose, as treaties of commerce, tariffs, currency legislation, embargoes, non-intercourse acts, wars, *etc.*" He argues that where differences of wealth may fairly be presumed to be in a measure due to the state's own acts of omission and commission, allowance should be made therefor in the tax system.¹ And he concludes that "were the highest human wisdom, with perfect disinterestedness, to frame a scheme of contribution, I must believe that the progressive principle would in some degree be admitted."

This defence of progressive taxation is in many respects interesting,² but it is not convincing. The defect of the theory consists in the fact to which President Walker himself alludes, that it furnishes no practical standard and enables us to lay down no general principles by which the influence of the state in creating inequalities of fortune may be measured. If progression is regarded as unequal, then it is impossible to correct one inequality by another unless it can be shown that the second will in every respect fit into, and counterbalance, the first. But the test embodied in the present doctrine is impracticable. If the compensatory argument were the sole defence of progressive taxation, it might be as well to abandon the contention at once.

¹ F. A. Walker, *Political Economy*, first edition (1883), 479-480. In the last edition these passages are omitted, although the general conclusion is still retained.

² The theory was advanced at length in the remarkable work of a woman, Mlle. Royer, which received a prize at the great international conference on taxation in Lausanne in 1860 (Royer, *Théorie de l'Impôt*, 1862). And it is found in several other writers, especially among the French. There is every reason to believe, however, that the theory was independently arrived at by General Walker.

Of a similar character, although of somewhat greater force, is the argument which upholds progression in some one particular tax, on the ground of its acting as a counterpoise to the influence of other taxes. When indirect taxes exist they often, it is said, hit the poor harder than the rich. The income tax, with its progressive scale, is to act as an engine of reparation. In order to attain equal treatment the regressive indirect taxes must be counterbalanced by the progressive direct taxes. Proportionality of taxation is still the true ideal, but the departure from proportional taxation in one direction must be met by an equal departure in the opposite direction. This argument I would term the "special compensatory theory," as over against the general compensatory theory. The latter upholds progression as a general principle; the former aims at proportion in general, but is willing to accept progression in some particular tax in order the better to realize the ultimate proportion.

This special compensatory theory is undoubtedly of some force in tending to justify a progressive income or property tax in practice, without upholding general progression in theory. Some of the fiercest opponents of the general theory of progression favor a progressive income or property tax on this ground. So again the progressive rental tax is frequently upheld as being in reality a proportional tax, because of the fact that as house rent decreases, its proportion of the total expenditure or income increases, especially in the middle and lower classes. Such an ultra-conservative as Leroy-Beaulieu advocates progression here, without seeing, however, that the argument is applicable to other taxes as well. But let us pass over these arguments in favor of what may be called ostensible progression and consider the economic arguments that may be advanced for and against progressive taxation as a general theory.

The real contest between the principles of proportion and progression turns about the fundamental question as to the basis of taxation—the theory of benefits or the theory of ability. On the one hand we have the principle that a man

should pay taxes in proportion to the benefits that accrue to him from the state—the so-called give and take, or *quid pro quo* doctrine, also known as the enjoyment, or bargain and sale, or exchange, or reciprocal, or social-dividend theory. Of this, minor variations are the protection and insurance-premium theories. They all in last resort mean taxation according to benefits received. I have therefore summed them up under the name of the theory of benefits. On the other hand we have the principle that a man should pay taxes in accordance with his faculty or ability to pay, or contributive capacity.

We must take it for granted in this place that the theory of benefits as the controlling principle in general taxation has been discarded in favor of the other theory. To prove this in detail and to point out the considerations which limit the general theorem, would require a discussion which belongs rather to the general bases of taxation. The point which I desire to emphasize here is that the theory of benefits has usually led to the principle of proportion, and that the theory of ability or sacrifice has usually led to the principle of progression. But this has not been universally true. For in a few cases the theory of benefits has led to the principle of progression, while the theory of ability has sometimes led not only to the principle of proportion, but also to the principle of degression rather than of progression.¹

II.

The old doctrine of taxation was that of benefits. It held that taxes must stand in a definite relation to the advantages derived by the individual citizen. Since protection was generally regarded as the chief function of the state, the conclusion was drawn that taxes must be adjusted to the protection afforded. Taxes were looked upon as premiums of insurance which individuals paid to the collective insurance company—the state—in order to enjoy their possessions in peace and security.

¹ By degressive taxation is meant an increase of the tax rate up to a certain limit, with a constant rate above the limit. That is, the proportional rate is regarded as the norm, but on all sums counted downward below this, the tax rate gradually diminishes. There is a degression.

The natural conclusion from this doctrine was proportionality of taxation. The larger a man's property or income, the greater are the benefits that accrue to him from the protection of the state. An insurance company fixes its premiums in exact proportion to the value of the property ; for the value of the property determines the extent of the risk. So in the same way the state must charge for its activities and exertions, proportioning each charge to the amount of its efforts, and measuring the expenditure of the effort by the exact amount of the property or the income protected. The logical and necessary outcome of this theory was declared to be the proportional taxation of all property or income. This was the theory of Vauban, the Physiocrats, Justi, Adam Smith, McCulloch, Thiers and most of the earlier French, German and English writers.

This conclusion, however, was first modified and then openly attacked. The modification consisted in introducing the theory that the minimum of subsistence should be exempted. As regards the property tax, this took the shape of a demand for the proportional taxation not of all property, but of all property in excess of a definite minimum. As regards the income tax the modification was known as the clear-income theory of taxation. This theory was not much else than the acceptance of the Ricardian view of income. Ricardo says that "the power of paying taxes is in proportion to the net, and not in proportion to the gross, revenue." By net revenue he means gross income, less expenses of production. Now the advocates of the clear-income theory held that the laborer's outlay for necessities are also expenses of production. Hence the demand for the exemption of the minimum of subsistence, as urged by Forbonnais, Steuart, Bentham and others in the eighteenth century. Moreover, some of the German writers, like Behr, Jakob and Lotz, went further and extended the conception of clear income. They maintained that not only the necessary expenses of sheer subsistence, but also the expenses which contribute to maintain a standard of comfort, should be considered expenses of production. The amount of income exempted

would thus be considerably larger. But all the excess, or the clear income over and above these expenses of production, should still be taxed proportionally because of the benefits theory. The taxable income is the clear income. Proportional taxation therefore means proportional taxation of clear income only.

It is plain that this really is proportional taxation in a very peculiar sense ; and that proportional taxation of clear income, *i.e.*, income above a fixed minimum, is really degressive taxation of total income. And thus, without knowing it, many advocates of so-called proportional taxation really favor non-proportional taxation. It may be said, moreover, in criticism, that this idea of clear income is open to serious objection. For as soon as we extend the idea of minimum of existence so as to include a standard of comfort—that is, as soon as we say that not only absolutely necessary but also relatively necessary expenses should be deducted, clear income, or taxable income, becomes a variable quantity, because not a fixed but a variable minimum must be deducted in each case. And since wealthier individuals generally have a higher standard of life, — for they consider almost as necessities what the poor look on as luxuries, — it would follow that the wealthier a man is, up to a certain point, the greater should be the amount exempted from taxation. Proportional taxation of clear income might in this case be not degressive but regressive taxation of total income ; it might actually tax the poor man more than the rich man. Clearly, therefore, if the idea of clear income be accepted at all, it must be restricted to the surplus above a fixed minimum of necessary subsistence.

Not only was the doctrine of proportional taxation modified in this way, but it was soon formally attacked, and from two sides. On the one hand the inadequacy of the basis was pointed out : it was affirmed that taxes could not and should not be proportioned to benefits. On the other hand, while the basis was still upheld, the validity of the conclusion was denied. That is, it was still asserted that taxes must be paid in accordance with benefits ; but it was shown that benefits

were not proportional to property or income. Let us take up the last objection first, especially because it has been almost completely overlooked.

The benefits to the individual, said some writers, like Condorcet, Garnier, Eisenhart and Judeich, increase faster than his property or income. Most of the public expenses are incurred to protect the rich against the poor, and therefore the rich ought to contribute not only absolutely but relatively more. Certain governmental expenses, said other writers, confer an equal or proportional benefit on all ; but there are many kinds of governmental outlay which have a special value for the rich, without losing the equal value for all. Others again confessed that the benefits of state actions are theoretically enjoyed by all, but maintained that practically the benefits accrue only to the wealthier classes. Finally, some writers, *e.g.* Fauveau, went so far as to invoke the aid of mathematics, and to try to prove that protection actually increases faster than property or income. The value of state protection to a man worth one million dollars is not just ten times as much as its value to the man worth one hundred thousand dollars, but far more than ten times as much. The insurance argument, say these writers, proves the contrary of what it is intended to prove. For insurance companies fix their premiums not only in proportion to the amount insured, but also according to the risks, so that the same amounts often pay different premiums. Now a million dollars belonging to one man is in greater risk of being stolen or pillaged than the same amount distributed among several men. Therefore the tax rate or insurance premium ought to be higher. Thus from all these different points of view writers who firmly believe in the benefits theory are forced, logically, as they think, to demand progressive taxation.

The situation is a curious one. The benefits theory is usually regarded by its opponents as a narrow, extreme-individualist, almost atomistic doctrine. The demand for progressive taxation is usually branded by the individualists as a socialistic demand. Yet here we have the arch-individualists who demand

what other individualists regard as arch-socialism. It is a remarkable outcome of individualism.

In reality, however, this defence of progressive taxation is not very strong. Far from being the fact that the value of protection increases faster than property, the very reverse is true. A man without any income or property at all may have more money spent on him in the poor-house than hundreds of men with moderate incomes. The millionaire who is able to hire his own watchmen, his own detectives, his own military guard, and who often relies more on his individual efforts than on the government for the protection of his property, causes the state less expense than the man of smaller means who must depend entirely on the government. The rich man sends his children to private schools and colleges; the poor man has his family educated in the public schools. The rich man has his street swept by his own hired laborer; the poor man has his cleaned at the expense of the city. The activity of the state is up to a certain point subject to the law of increasing returns. If we are to have any comparisons at all between state action and private business, the state may be compared to a railroad, whose business and whose receipts may increase vastly without entailing a proportionate increase of outlay, because certain expenses are fixed, not variable, charges. It does not cost the state ten times as much to settle a \$1,000 lawsuit as it does to settle a \$100 litigation. Certain expenses of government indeed vary with the value of property, but the great majority increase in a less than proportionate ratio. And from the standpoint of benefits conferred, who would have the hardihood to say that the poor man does not value the protection afforded to his life and property just as much as the rich man? As we have just seen, he frequently values it far more, because of his entire dependence on the state. No; if protection or benefits is to be the sole test of taxation, the scale should be graduated downward, not upward; neither the protection nor the benefits grow in proportion to the property or income. Logically, thus, it might seem that the poor man should then pay proportionally more than the rich man.

This whole method or argument, however, is inconclusive. The question of advantages which an individual derives from governmental action is a psychological one. It does not logically lead either to proportional or to progressive or to regressive taxation. The degree to which a taxpayer values the public art galleries, or the public concerts, or clean streets, or the decisions of the courts, or the thousand and one other benefits conferred by state action, depends on a multiplicity of motives which may differ in every individual case. A poor man may value them more, or he may value them less, than a rich man. Two equally rich men may value them in entirely different degrees. There is no exact and absolute measure of advantages. It is wholly impossible to apportion to any individual his exact particular share in the benefits of governmental activity. The advantages are quantitatively not measurable.¹ Proportional taxation as a necessary outcome of the benefits theory is just as illogical as progressive taxation based on the same theory.

It is this logical conclusion which has led most recent writers to abandon the premises that made the conclusion possible. But some of the advocates of the give-and-take theory sought to uphold the general doctrine on slightly different grounds. It was confessed that the protection or insurance theory of taxation was illogical. But the advocates of the give-and-take theory, like Sargent and Gandillot, now maintained that taxes should be proportioned to the cost of service. Not the value of the protection to the individual, but the cost of the service to the government is the test. Every man must pay the state for a service just what it costs the state to afford that service. This is still the exchange or *quid pro quo* theory, but it is a variation from the untenable protection or insurance doctrine.

But the cost-of-service theory was soon found to be just as unsatisfactory as the other variations of the give-and-take

¹ Cf. the discussion of benefits as both the reason and the measure of taxation, in my address on the single tax, in *The Single Tax Discussion*, reported for the American Social Science Association (1890), pp. 40-44.

theory. There is, indeed, no doubt that some payments made by individuals for particular services should represent as nearly as possible the cost of service to the government. In this all modern writers are agreed. But such payments are not taxes. They are known in public finance as fees and tolls, or what Adam Smith called "particular contributions." But they are not taxes properly so called. For just as it is impossible to apportion taxes in general according to the protection or insurance, because it is impracticable to measure the individual benefits of general government activity, so in the same way it is impossible to apportion taxes in general according to the cost of each particular service, because it is impracticable to separate the individual's share in the total cost of general state expenses. The cost-of-service theory is just as inadequate as the protection or insurance theory. They are both variations of an indefensible whole.

Thus the entire give-and-take theory came to be abandoned as the foundation of a scientific treatment of taxation. And since the theory of benefits was largely discarded as the sole explanation of taxation, it became necessary to substitute another basis. This has been found in the doctrine of ability or faculty. Every individual should be taxed in accordance with his faculty, or his ability to pay.

III.

The faculty theory of taxation is very old. That a man should contribute to the public burdens in proportion to his ability, or faculty, is a principle that dates back to the middle ages, both in theoretical literature and in practical legislation, and may even be found in its main outlines in the writings of the Greek philosophers. The word "faculty" is the usual one in Latin and French tax laws and is the general term employed in all the early American laws, so it seems to be a peculiarly appropriate term to use in American discussions. For a long time, however, the best practical test of faculty was supposed to be general property. Thus all through the

middle ages, when local taxes were levied at all, they were assessed on general property on the principle *juxta bonorum facultatem* or *pro bonorum facultate*.¹ In England the word ability is first used in a general statute in the Elizabethan Poor Law, which provides for the taxation of every inhabitant of the parish "according to the ability of the parish"—a term interpreted to mean "property." This identification of ability and faculty with property was carried over into the earliest American colonial legislation.²

Later on the interpretation of "faculty" was somewhat altered. From meaning property it now began to denote revenue or income. But it was still interpreted to imply a proportional tax, — proportional, now, no longer to property, but to income. We see this idea carried out in practical legislation. Thus, not to speak of the mediaeval town taxes in Europe, we find in the tax laws of the American colonies toward the middle of the eighteenth century the word "faculty" used to designate the "returns and gains," as over against the "visible estates" or property; and the tax was expressly called the "faculty tax" or the "assessment on the faculty."³ So again during the French Revolution the principle was repeatedly laid down that taxation should be according to faculty, or according to estates and faculties, — faculty being presumed to stand for revenue as over against the property. But in all cases, with only one exception, the faculty tax was held to mean a proportional, not a progressive tax. And later on, in the French constitutions of 1814 and 1830, the term "faculty tax" seems to be used in the sense of a proportional tax on property.

The idea that faculty or ability is measured by income obtained a firm foothold in theory through the celebrated maxim of Adam Smith, that "the subjects of every state ought to contribute . . . as nearly as possible in proportion to their respective abilities, that is, in proportion to the revenue which

¹ See my article, "The General Property Tax," in the *POLITICAL SCIENCE QUARTERLY*, V, 48 (March, 1890).

² *Ibid.*, p. 57.

³ *Ibid.*, p. 58.

they respectively enjoy," *etc.* And for some time the theorists regarded the proportional income tax as the ideal, which ought to be substituted for the whole existing system of taxation.

It was not long, however, before a slightly different interpretation was put on faculty. Income was still regarded as the test of faculty, but the definition of income was altered, or rather, only a portion, not the whole, of the income was henceforth regarded as the standard of ability. Only that part of income which exceeded what was necessary for existence was declared taxable. The idea we know had already been developed by the advocates of the give-and-take theory of taxation, like Steuart, Bentham, Forbonnais, and a whole host of German writers in the first half of this century. But the clear-income theory, as it is called, was adopted also by the advocates of the faculty principle. That is to say, taxation as demanded by the faculty principle should be proportional indeed, but proportional only to that part of income which exceeded a definite sum. The minimum of existence should be exempted. It is readily seen that the resulting tax would be not strictly proportional, but graduated, as to the whole income, although it would be proportional to a certain excess of income.

The entering wedge, which thus began to modify the conception of faculty, was soon pushed further in. The original idea, as we have seen, was that of production. Whether the product was taken as it came in, in the shape of income, or as it permanently remained, in the shape of property, is immaterial in so far as this point is concerned. Both property and income as tests of faculty had regard to conditions of production. But as soon as a demand was made for the exemption of the minimum of subsistence, a new factor was introduced, namely, the conditions of consumption. What the individual received or produced in the way of income was no longer the only consideration ; the ability to apply this product to the satisfaction of his necessary wants became an equally cogent factor. Then it was only a step to enlarge the conception of consumption. Not alone the satisfaction of necessary wants, but

the satisfaction of all wants now became the watchword. Faculty was declared to consist not alone in power of production or extent of product, but also in the power to use the product to satisfy all one's wants. The conditions which limit faculty are to be found not only in the amount of the income but in the demands that are made upon the individual in disposing of his income. In other words, the idea of burden, or sacrifice, was introduced. Equality of pressure or equality of sacrifice now became a fundamental consideration; and faculty or capacity to pay taxes was henceforth declared to be measured by that proportion of his product or income the loss of which would impose upon the individual an equal burden or sacrifice with his neighbor. This was virtually the standpoint of Montesquieu, Montyon and Say among the French, and of Craig, Buchanan and Sayer among the English writers.

The doctrine of faculty, as reinvigorated by the conception of sacrifice, was thus made the starting point of a new scientific movement. Some writers, like the German Rau, declared the two ideas virtually identical. Some, like John Stuart Mill, let fall entirely the conception of faculty and maintained that the only test of just taxation was equality of sacrifice. Finally other more modern authors have sought to combine the two ideas, maintaining that the conception of faculty can be really grasped only when interpreted in the light of equal sacrifice, or conditioned by it.

What, now, were the conclusions drawn from this doctrine of equal sacrifice—a doctrine which is by no means so new as has been generally assumed, and which is found in many of the English and French writers who have almost universally been passed over in the history of the science of finance? The argument may be expressed as follows. All individual wants vary in intensity, from the absolutely necessary wants of mere subsistence to the less pressing wants which can be satisfied by sheer luxuries. Taxes, in so far as they rob us of the means of satisfying our wants, impose a sacrifice on us. But the sacrifice involved in giving up a portion of what enables us to satisfy our necessary wants, is very different from the sacrifice involved

in giving up a portion of what enables us to satisfy our less urgent wants. If two men have incomes of one thousand dollars and one hundred thousand dollars respectively, we impose upon them not equal, but very unequal sacrifices, if we take away the same proportion, say ten per cent, from each: for the one now has only nine hundred dollars, and must deprive himself and his family of necessities of life; the other has ninety thousand dollars, and if he retrenches at all his expenditures, which is very doubtful, he will give up only great luxuries, which do not satisfy any pressing want. The sacrifice imposed upon the two individuals is not equal. We are imposing on the poorer man a far heavier sacrifice than on the richer. In order to impose equal sacrifices we must tax the latter not only absolutely but relatively more than the former. That is, the tax must not be proportional, but progressive; the rate must be lower in one case than in the other. And since our wants shade imperceptibly into each other, — from absolute necessities, to comforts, to comparative luxuries, to extreme luxuries, — logic would require the progression to be gradual.

This doctrine was soon assailed from several sides. Some, like Leroy-Beaulieu, opposed it simply because they denied the validity of the sacrifice theory as over against the benefits theory. But they may be passed over here, as they have already been discussed under the head of advocates of the benefits theory. Others, like Mill, asserted that the doctrine was "too disputable entirely," without clearly showing, however, in what way it could be disputed. For they still believed in the equality-of-sacrifice doctrine, although they did not desire to go beyond the exemption of the minimum of existence. Others again, among recent writers, have accepted the conclusion as to progressive taxation, but maintain that the premises should be slightly altered. Others, finally, have pointed out that the conclusion itself should be somewhat changed.

To take the last point first. If we accept the argument, so it was said, it follows that the rate of progression should continually increase until finally the whole income or property would be swallowed up by the tax. This is a most common

objection and one of the favorite arguments with opponents of progressive taxation. It may be traced as far back as the last century. Jollivet, for example called the progressive tax the vulture which consumes its own entrails.¹ In answer to this it was pointed out by Neumann and others that the progressive rate would satisfy the demands of theory by applying only to the successive increments of property or income, so that the hundred per cent rate, if it were ever reached, would never apply to the entire income, and therefore could never confiscate the whole income. But more than this, many of the advocates of progressive taxation hold that the rate of progression ought itself to be degressive. This was deemed to follow logically from the argument above. For if the intensity of our wants differs very considerably with different objects, the loss of a given sum of money will affect the poor man and the rich man very unequally, because in the one case it trenches upon necessities, in the other case it does not. But in proportion as we approach the less necessary wants, the difference in intensity diminishes, until finally, when we deal with large deductions from large incomes, there is virtually no difference in the intensity of the wants, because the amounts serve to satisfy wants for extreme luxuries, the loss of which will be of equally little importance. Therefore the rate of taxation should gradually increase up to a certain point, then decrease with the difference in the intensity of the wants, until finally, when the point is reached beyond which the wants are of equally little importance, the rate should be the same. In other words taxation should be progressive, but the rate of progression should itself gradually decrease. Equality of sacrifice therefore leads to degressively progressive taxation.

We come, now, to those writers who accept the conclusion, but desire a change in the premises. For instance, some, like the recent Austrian economist, Meyer, while approving progressive taxation, think that the premises prove a little too much. If the doctrine of equal sacrifice is to be inter-

¹ "L'impôt progressif, en dernière analyse, c'est le vautour déchirant ses propres entrailles." J. B. M. Jollivet, *De l'Impôt Progressif, et du Morcellement des Patrimoines* (1793), p. 96.

puted as meaning that the intensity of the wants which remain unsatisfied because of the tax must be equal, then the tax would have to take from the large income the whole difference between it and the smaller income, as only thus could equality of sacrifice in the sense indicated be attained. But this, it is held, would be rank communism. These writers therefore propose to measure the equality of the sacrifice in a different way,—not by the intensity of the wants that remain unsatisfied because of the tax, but by the degree in which the tax increases the intensity of the last wants that are actually satisfied. The stress is laid upon the satisfied, not the unsatisfied wants.

This objection, however, is of very little weight, because it ascribes an arbitrary meaning to the word “equal.” When economists speak of equal sacrifice, they mean relatively proportional sacrifice. When we speak of equality of taxation, we certainly do not mean that identically the same amount should be taken from each one; for that would involve the grossest inequality. Where we say that taxes should be equal, we mean that the burden should be proportional. Whether the proportion should be a strict numerical or a relative proportion,—that is, whether the rate should be the same or different,—depends on the answer we give to certain fundamental questions. It is perfectly conceivable, for instance, that a truer proportion might be found through a so-called progressive tax, than through what is commonly called a proportional tax. That was the view of Robespierre and of the French Convention when it decreed progressive taxation in the following words :

In order to attain a more exact proportion in the division of public burdens which every citizen should support according to his faculties, a graduated and progressive tax shall be established on luxury and property, real as well as personal.¹

So in the same way, when we say that the sacrifice should be equal, we mean with John Stuart Mill that “each person shall

¹ Loi du 18 Mars, 1793. In Hélie, *Les Constitutions de la France* (1880), p. 359.

feel neither more nor less inconvenience from his share of the payment than every other person experiences from his." "Equal" sacrifice is thus merely a rough way of expressing the idea of "proportional" sacrifice. In assuming that equal sacrifice necessarily implies that "the intensity of the wants that remain unsatisfied because of the tax" must be equal, these objectors really confound equal sacrifice with arithmetical equality. All that is implied in the doctrine of equal sacrifice is that the pressure must be relatively proportional, not that it must be identically the same. It is the same mistake as to assume that equality of taxation means that every one—rich and poor—should pay precisely the same amount. The amount paid is identical or equal in one sense, and yet such taxation would be grossly unequal in the usual sense of the term "equal taxation." Equality as used of taxation does not mean sameness, but proportionality.

It makes no difference, therefore, whether we lay the stress on the satisfied or on the unsatisfied wants. The explanation is identical in either case. Granting the gradation in human wants, a tax which takes away the possibility of satisfying some wants, changes the intensity of the last want actually satisfied, just as it in the same way changes the intensity of the next urgent want that remains unsatisfied. We are simply looking at the same fact from two different standpoints. The theory is not altered a whit. If the imposition of a tax makes me abandon my outlay for amusements, in order to be able to purchase clothing, the intensity of my last want actually satisfied is increased (because the desire for clothing is more pressing than that for amusements), but the intensity of my next urgent want that remains unsatisfied is equally increased (because I now can not afford amusements, while formerly I could afford amusements but could perhaps not afford more expensive enjoyments).

This then is the theory of progressive taxation resting on equality of sacrifice. A number of recent Dutch writers, who had already in the seventies accepted the final utility theory of Jevons, applied this theory to the doctrine of progressive

taxation just discussed. According to that more modern nomenclature the theory might be put as follows :

Every satisfaction of human wants implies the existence of utility in the commodity which provides this satisfaction. The value of all commodities depends upon their final utility, *i. e.*, upon the serviceableness of the last usable portion to satisfy some particular wants. Since the intensity of our wants and therefore their final utility decreases as we ascend from the lower or more pressing to the higher or less urgent wants, and since larger incomes supply the means of satisfying these less intense wants, a strictly proportional tax would involve smaller sacrifices in the case of the larger incomes. Strict equality of sacrifice in the sense of relatively proportional diminution of burden thus involves progressive taxation. But it is a well established fact that the number of wants increases as their intensity diminishes. The urgent wants of existence are very pressing indeed, but limited in number ; the less urgent wants continually increase in number and variety with wealth and civilization. After a certain point, therefore, the differences between the intensity (and final utility) of wants diminishes with the increase of their number and area, until finally, when we come to the very large incomes, the possibility of satisfying almost all wants becomes equal. Hence while taxation should be progressive, the rate of progression should itself diminish until finally the tax becomes proportional.

The necessity of progressive taxation resting on this gradual decrease of final utility of wants was worked out arithmetically by some of the Dutch authors in a series of complicated tables, which I pass over in this place. The proof, however, seemed to be absolutely complete. The logical necessity of progressive taxation, as an outcome of the equal sacrifice theory or the final utility theory, seemed to be put on absolutely secure mathematical foundations. But it was reserved for another Dutch writer to use the same mathematical arguments in the overthrow of these conclusions. In a very recent work, which there is no space to discuss here, Cohen Stuart ingeniously demonstrates that the whole elaborate system of

computation is erroneous, and that progressive taxation is not a logically necessary conclusion from the assumed premises. According as we choose our figures we can prove the possibility of progressive, of proportional or of regressive taxation. From the equality-of-sacrifice doctrine of itself, we cannot deduce any mathematically exact scale of taxation, whether progressive or otherwise.

This brings us to the very core of the objection to the equal sacrifice theory, regarded as determining the paramount consideration in the construction of any definite rate of progression. The imposition of equal sacrifices on all taxpayers must always remain an ideal impossible of actual realization. Sacrifice denotes something psychical, something psychological. A tax takes away commodities, which are material, tangible. To ascertain the exact relations between something psychical and something material, is impossible. No calculus of pains and pleasures can suffice; no attempt to reduce the heterogeneous to the homogeneous can ever succeed. But even assuming that this could be done, the case for the advocates of equal sacrifice would not be much better. The sacrifice occasioned by a tax is only one factor in the problem, and may be a minor factor. Two men may have the same income, which they may value at very different rates. The one may be a bachelor, the other a man with a large family dependent on him; the one may be well, the other ill; the one may have simple tastes, the other extravagant tastes; the one may be a miser, the other a spendthrift; the one may earn his income, the other may receive it as a gift; the one may spend his income in a village where prices are low, the other may be compelled to spend it in a metropolis where prices are high. The variations in particular cases are numberless. It is utterly impossible to say whether the identical tax on people of identical income or property will produce the same relative pressure, *i.e.*, occasion an equal (proportional) sacrifice. And since sacrifice bears no definite relation to amount of commodities, it is quite conceivable that in individual cases a regressive tax may produce just as much or

as little equality of sacrifice as a proportional or a progressive tax. The attempt to ascertain a mathematical scale of progression, so as to avoid a charge of arbitrariness, is foredoomed to failure. The equality-of-sacrifice theory, taken by itself, cannot lead to any fixed rate of taxation, whether proportional or graduated.

A supposed way out of the difficulty has recently been outlined. One of the leaders of the Austrian school of pure economics, Professor Sax, has boldly maintained that taxation has nothing at all to do with equal sacrifice, and that progressive taxation may be upheld on what he calls purely economic grounds, apart from questions of justice or ethics. This theory is deemed by its author so important and conclusive that it deserves a slightly fuller discussion.¹

Sax bases his diffusely expressed, but acutely reasoned, exposition on the assertion that the problems of taxation have nothing to do with ethical, but only with purely economic considerations ; and that therefore the ideas of justice and of equal sacrifice are entirely irrelevant. He classifies all human wants as individual and collectivistic. Every person has wants that attach to him simply as an individual; but he also has wants that arise from association with other men. It is with these collectivistic or social wants that the science of finance has to deal. The state is not the only form of organization which satisfies these collectivistic wants ; for these may be satisfied in part by other forms of association. But the state alone can satisfy a large part of the collectivistic wants ; and in order to make it possible for the state to satisfy these wants, the individual must support the state. This is the basis of taxation.

The problem of taxation is: How much of a man's stock of goods shall he devote to these collectivistic wants? This must depend, says Sax, on the final utility of the goods taken from the individual. That is to say, our wants vary in intensity, ranging from the most pressing — those of absolute neces-

¹ It will be found in his *Grundlegung der Theoretischen Staatswirthschaft*, (1887), esp. §§ 81, 82 ; and is repeated in his essay "Die Progressivsteuer," in the first number of the Austrian *Zeitschrift für Volkswirthschaft, Socialpolitik und Verwaltung*, 1892.

saries of life—through several grades until we reach pure luxuries. The higher we go in the stock of goods at our disposal, the greater, up to a certain point, the decrease in the intensity of our wants. The value of any particular quantity of goods is therefore fixed by its final utility, that is, by the serviceableness of the last usable portion to satisfy some particular wants. Now the problem of equal taxation is, to take away from individuals such quantities of goods that each individual will value the amount taken from him just as highly as his neighbor will value the amount taken from him. In other words, the final utility of the commodities taken must be the same in every case. This he calls the economic principle of equivalence. But as we have seen that the final utility varies inversely as the amount, the final utility of the commodities taken from two unequally wealthy individuals can be equal only when we take, not relatively the same, but a relatively larger proportion from the wealthier individual. If we took the same proportion from two unequal stocks of goods, A and B, the final utility of the amount taken from the smaller stock A would be far greater than the final utility taken from the larger stock B. In order to make the final utility equal we must take a larger proportion from B than from A. In other words we must have progressive taxation up to a certain point. "Equality of values taken," not "equality of sacrifice," is the purely economic basis of taxation.¹

¹ Professor James, in his review of Sax's book in the *POLITICAL SCIENCE QUARTERLY*, V, 168 (March, 1890), gives an unintentionally erroneous account of Sax's meaning. James says: "The state may, therefore, for a given service take very different sums from different private economies, because the final utility of the service varies with the amount of goods." Sax does not mean this. If individuals were to pay taxes in accordance with the final utility of the service, we would practically be going back to the give-and-take theory of taxation, which Sax expressly disclaims. It is not the final utility of the state service, but the final utility of the commodities taken away in the shape of taxes, which Sax emphasizes. The final utility, or value, of the state services has nothing to do with the question. It is the final utilities of the commodities that the individual pays to the state which must be equal, and it is because the final utility of these varies inversely as the whole stock of goods that Sax demands progressive taxation. We must be careful not to confuse the two notions, as does Professor James. Sax himself protests against a similar confusion of which an Austrian economist is guilty. Cf. *Die Progressivsteuer*, 91, note.

Although Sax heralds this as a great discovery, we may be pardoned for believing that it contains absolutely nothing new that is of any value for the purposes of the theory of progressive taxation. In the first place the doctrine of the gradation of wants had long since been elaborated by the Austrian economists; the final utility theory of Jevons had been applied to the problems of taxation by the Dutch economists; and lastly, the formulation of the whole doctrine had been developed by Meyer without any suspicion on his own part that he had thereby made any specially new discovery. Now the only difference between the equal sacrifice or final utility theory of his predecessors and the "equivalence" theory of Sax is a mere difference of words. The equal sacrifice theory says that the tax must take away such amounts that the resulting pressure or the sacrifice of enjoyments may be relatively proportional; the "equivalence" theory says that taxation must take away relatively proportional amounts. But the taking away or giving up of anything involves a pressure or a sacrifice, whether the sacrifice be voluntary or compulsory. Hence 'equality of values taken' implies an "equality of sacrifice" to the individual.

In fact a "purely economic" theory of taxation is as impossible as a "purely economic" theory of value, if "pure economics" must make abstraction of psychological and therefore of ethical considerations. As soon as we introduce the conception of human wants and the means of satisfying these wants, we are dealing with questions of sacrifice of enjoyments. Equality of taxation therefore connotes an ethical problem, in the same sense that the general law of value and price connotes an ethical problem. The mediaeval theory of *justum pretium*, with its modern successors in the theories of fair wages, of reasonable railway and other corporation charges, shows how indissolubly are bound up the problems of ethics and economics. The problems of taxation are of no different kind. And the situation is not altered a whit by regarding taxes as the satisfaction of collectivistic wants. If I have to spend money to support my relatives, it is no less a sacrifice because these

duties may be regarded as the satisfaction of individualistic wants, *i.e.* wants which primarily affect me in the individual relations of my family. All the more must the compulsory subtraction from my wealth by a tax be declared a sacrifice, even though it be regarded as the voluntary satisfaction of collectivistic wants. Hence whether we call it the purely economic theory or the ethical theory of public finance, is immaterial. The "equivalence" theory of taxation is simply another way of putting the final utility or equal sacrifice theory. They do not oppose each other, they do not even supplement each other; correctly understood they are simply two explanations of the same thing in slightly different words. It is impossible to take away relatively proportional values without inflicting relatively proportional sacrifices.

So far has the modern theory of progressive taxation gone. But if, as we have seen, the equality-of-sacrifice theory taken by itself cannot lead to any fixed rate of progression, must we then range ourselves with those who maintain that progressive taxation is illogical and unjust, and that there are no substantial arguments in its favor, while the opposing arguments are numerous and convincing? Is progressive taxation economically justifiable or not? Is it theoretically sound and practically expedient?

IV.

And first, must we abandon progressive taxation in theory? It seems to me not, and for the following reasons.

We must revert to the fundamental conception of faculty or ability, which is after all the best standard we have of the measure of general obligation to pay taxes. What does the faculty theory in its wisest interpretation teach us in the matter?

President Walker's definition of faculty is well known.¹ Faculty, he says, is "the native or acquired power of production." But if we analyze faculty more closely, in the sense

¹ Cf. his article, "The Bases of Taxation," in the *POLITICAL SCIENCE QUARTERLY*, III, 14 (March, 1888).

in which we instinctively use the word in tax matters, we see that it means something more than that. It not only implies native or acquired power of production, but includes also at least the opportunity of putting these powers to use, the manner in which the powers are actually employed and the results of their use as measured by periodical or permanent accretion to the producer's possessions. We have seen how the original idea was that represented by President Walker, but how this was soon supplanted by the more real and practicable tests, first of property (or permanent accretion), then of income (or periodical accretion). But, furthermore, faculty connotes an additional conception. It means not only powers of production or results of powers of production, but also the capacity to make use of these powers or these results—the capacity, in other words, for enjoying the results of the exertions. It is this latter conception which has been developed by recent writers, although they have carried it to an extreme just as excessive as that represented by the advocates of the earlier theories. The elements of faculty, then, are two-fold, (1) those connected with acquisition or production, (2) those connected with outlay or consumption. What is the application to the matter in hand?

If we regard only the first set of elements, it is evident that the possession of large fortunes or large incomes in itself affords the possessor a decided advantage in augmenting his possessions. The facility of increasing production often grows in more than arithmetical proportion. A rich man may be said to be subject in some sense to the law of increasing returns. The more he has, the easier it is for him to acquire still more. The initial disadvantages have been overcome. This was early pointed out by Adam Smith when he said:

A great stock, though with small profits, generally increases faster than a small stock with great profits. Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little.

When the native power of production remains as before, the "acquired power" has greatly augmented. Hence from this

point of view faculty may be said to increase faster than fortune or income. And this element of taxable capacity would not illogically result in a more than proportional rate of taxation.

On the other hand, the elements of faculty which are connected with outlay or consumption bring us right back again to the sacrifice theory. While the idea of faculty includes that of sacrifice, the two ideas are not coextensive. Faculty is the larger, sacrifice the smaller conception. Faculty includes two sets of considerations, sacrifice only one. Now, while the sacrifice theory in itself, as we have seen, is not sufficient to make us demand any fixed scale of progression, its influence in the other direction is certainly not strong enough to countervail the productive elements of faculty, which seem to imply progressive taxation. In fact, we may go further and say that the sacrifice theory, or the consumption element in faculty, can certainly not be used as an argument necessarily leading to proportional taxation. If it does not lead necessarily to any definite scale of progression, much less can it lead necessarily to a fixed proportional taxation. But if we never can reach an ideal, there is no good reason why we should not strive to get as close to it as possible. Equality of sacrifice, indeed, we can never attain absolutely or exactly, because of the diversity of individual wants and desires; but it is nevertheless most probable that in the majority of normal and typical cases, we shall be getting closer to the desired equality by some departure from proportional taxation. In certain individual cases even regressive taxation might accomplish the result best, in other individual cases proportional taxation would be the most serviceable. But if we take a general view, and treat of the average man, — and the state can deal only with classes, that is, with average men, — it seems probable that on the whole less injustice will be done by adopting some form of progression than by accepting the universal rule of proportion. A strictly proportional rate will make no allowance for the exemption of the minimum of subsistence. It will be a heavier burden on the typical average poor man than on the typical average rich man. It

will probably be more severely felt, relatively speaking, by the average man who has only a small surplus above socially necessary expenses, than by the average man who has a proportionally larger surplus. It will, in short, be apt in normal cases to curtail disproportionately the enjoyments of different social classes.

Hence if we base our doctrine of the equities of taxation on the theory of faculty, both the production and the consumption sides of the theory seem to point to progressive taxation as at all events neither more illogical nor more unjust than proportional taxation. It may indeed be frankly confessed that the theory of faculty cannot point to any definite rate of progression as the ideally just rate. To that extent there seems to be truth in Mill's contention that progressive taxation cannot give that "degree of certainty" on which a legislator should act ; as well as in McCulloch's assertion that when we abandon proportion we are "at sea without rudder or compass." It is true that proportion is in one sense certain and progression is uncertain. But their argument proves too much. An uncertain rate, if it be in the general direction of justice, is nevertheless preferable to a rate which, like that of proportion, may be more certain but less equitable. Half a loaf is better than no bread. Stability is assuredly a good thing ; but it is highly questionable whether a stability which is necessarily unjust is preferable to an instability that works in the general direction of what is recognized as justice. All governmental actions which have to do with money relations of classes are necessarily more or less arbitrary. The fines imposed by the courts, the fixing of the rates of import duties or excise taxes are always to a certain extent inexact. And in truth, a strict proportional tax, if we accept the point of view mentioned above, is really more arbitrary, in respect to the individual taxpayers, than a moderately progressive tax. The ostensible certainty involves a really greater arbitrariness.

So also the other arguments often advanced against progression seem to be in some measure destitute of foundation. The common objection that progression is confiscation, because

it must finally end by swallowing up the whole capital, may be completely obviated, as we have seen, by making the rate of progression itself degressive ; so that it would become impossible to reach one hundred per cent or any like percentage of large fortunes.

The objection that it is a fine put on industry and saving is really not applicable to progressive taxation as such, but rather to the whole system of taxation on property or income. The logical conclusion from this would be the demand for taxation only on expense; and even that would be to a certain extent a tax on industry. But it is hard to see why industry and saving should not be taxed, if it increases our capacity to pay taxes; and it is still harder to see how we can avoid taxing industry. Furthermore, it is a mistake to assume that larger fortunes are always the result of individual saving. The argument, in short, is not an argument against progression, but against taxation in general. If a moderately progressive tax is really more equitable than a strictly proportional tax, progression will be less of a fine on thrift and industry than proportion would be.

It is possible, therefore, to draw only this very vague conclusion as to the general legitimacy of the principle of progressive taxation. The practical application of the principle depends on a series of important considerations.

In the first place we are confronted by the question of incidence. If the theory of general diffusion of taxation be sound, then it is immaterial whether we levy a proportional or a progressive tax. For since the tax would ultimately be shifted to the consumer, the taxpayer would not be injured, while the consumer would bear the tax only in proportion to what he consumed. It is a singular fact that this illogical procedure of the diffusion theory has always been overlooked. For the most heated opponents of progressive taxation have been, like Thiers, advocates of the diffusion theory of taxation, without perceiving the absurdity of their position. The diffusion theory of taxation, however, we know to be entirely unsound.¹ Nevertheless,

¹ See my monograph on *The Shifting and Incidence of Taxation*. American Economic Association Publications, vol. vii, nos. 2 and 3.

so far as taxes really are shifted at all from the taxpayer, the problem of progression loses its importance. For if taxes are actually shifted, the rate in the first instance is of no essential consequence. It is only in so far as we assume that so-called direct taxes remain where they are put, that the considerations of faculty or ability are of any weight. How far this assumption is true, has been investigated in another place. For the purpose of the theoretical discussion it may be taken for granted that the problem of progression *versus* proportion must be treated on the hypothesis that the assumption is true. But when we come to construct a progressive rate in practice, we must be careful to ascertain how far the assumption conforms to reality. A progressive rate of taxation which does not reach individual faculty at all, is as unnecessary as it is illogical.

Secondly, the defence of progression rests on the theory that it is applicable to general taxation taken as a whole. It rests on the assumption that taxes are paid out of revenue, and that the whole system is framed with this end in view. But it is obviously an immensely difficult task to shape a whole system of taxation so that the average general rate will be a moderately progressive one. Actual systems of taxation are of the most varied kinds. In some taxes it is impracticable to introduce a progressive scale, as they are by their very nature proportional; so *e. g.* tithes or poll taxes, — for a graduated poll tax is really not a poll tax at all, but a class tax. In other cases the taxes in actual life are even regressive; as *e. g.* many of the indirect taxes. It would be impossible thoroughly to carry out the principle of general progression, unless we had a single universal income tax or a single property tax. But no scientific writer to-day favors a single income tax or a single property tax or, for that matter, a single tax of any kind. Thus in advocating the system of progression we must have regard to the facts of the individual case and to the general sentiment of the community. In the United States, for instance, the general property tax in its practical operation is largely regressive, especially so far as personalty is concerned. The tax reformers have quite enough to occupy their attention in trying to make the

rate really proportional, before bothering themselves with the further stage of progression. But it is all the more worthy of consideration whether new taxes that are being devised, such as the inheritance taxes or certain possible forms of indirect income taxes, may not properly be levied according to the progressive principle. It is more than likely that a number of moderate progressive taxes would after all still simply result in securing an average proportional rate for the whole system of taxation. And we have seen that some defenders of proportion in theory admit the legitimacy of certain progressive taxes as a compensation for other really regressive taxes. In practice, then, we may frequently demand progressive taxes without being at all so extreme or so "communistic" as many persons believe. But even then, of course, the practical danger that high rates of progression might augment fraud and contribute in part to the exodus of capital, is a consideration that must not be overlooked by the legislator.

Thirdly, the defence of progressive taxation rests on the assumption of faculty as the basis of taxation. Now while this assumption is good for taxation as a whole, for general state purposes, it is questionable whether the principle of benefits is not of some weight in problems of purely local and municipal finance. A discussion of the contest between these two principles and the limits of their relative applicability to different phases of public revenue would take us too far astray here. But, it may be said, it is coming more and more to be recognized that within the domain of the taxing power the principle of benefits should be followed to some extent in strictly local finance.¹ If this is true, the principle of progression will be of rather more limited application to some of the charges employed for the support of local government; for the theory of benefits, as we have seen, leads logically to proportion, not to progression. Thus the practical sphere of the applicability of the progressive principle would be even more circumscribed.

¹ For a discussion of these points see my article on "The Classification of Public Revenues," *Quarterly Journal of Economics*, April, 1893.

If, therefore, we sum up the whole discussion, we see that while progressive taxation is to a certain extent defensible as an ideal and as the expression of the theoretical demand for the shaping of taxes to the test of individual faculty, it is a matter of considerable difficulty to decide how far, or in what manner, the principle ought to be actually carried out in practice.¹

Theory itself cannot determine any definite scale of progression whatever. And while it is highly probable that the ends of justice would be more nearly subserved by some approximation to a progressive scale, considerations of expediency, as well as the uncertainty of the inter-relations between various parts of the entire tax system, should tend to render us extremely cautious in advocating any general application of the principle. In last resort the crucial point is the state of the social consciousness and the development of the feeling of civic obligation.

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¹ For a fuller discussion of the practical limits of the application of the progressive principle, see my monograph on "Progressive Taxation." In this will be found the arguments which on the whole seem to oppose the introduction of the progressive principle in the case of the land and general property taxes, as well as in the corporation taxes, but which show its applicability to the inheritance tax, the various forms of indirect and direct income taxation and other taxes.